

New Private Markets

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NEWS & ANALYSIS

IMCO's Sims on sustainability: 'We weren't doing it for accolades'

The ESG backlash emanating from the US political sphere changes nothing about how the C\$86bn investor approaches sustainable investing, according to head of sustainability Polina Sims.

A focus on sustainability as a driver and preserver of value is nothing new, according to Polina Sims, managing director and head of sustainability, investment strategy and asset management at the Investment Management Corporation of Ontario.

The backlash against ESG emanating from the US political sphere may have encouraged some private markets firms and investors to sharpen their focus on the quantifiable value of sustainability, but this is not the case for IMCO, which manages C\$86 billion (€53 billion; \$62 billion) of assets on behalf of Canadian public pension plans.

The investor has a large allocation to private markets and has committed capital to funds such as Brookfield Asset Management's first Global Transition Fund and Apax Partners' Global Impact Fund, according to New Private Markets data. The investor has always taken a "pragmatic, market-aware" approach, according to Sims. NPM exchanged emails with her about the current state of sustainability in private markets. Here are the responses.

Would you agree that sustainability (or ESG) functions have had a bit of a "reset" recently, prompted by the US political backlash, in terms of their role and what success looks like?

I would disagree from IMCO's perspective. We have always taken a



Polina Sims, managing director, head of investment strategy, sustainability and asset management, IMCO

pragmatic, market-aware approach to sustainability that aligns with our long-term mandate. Our teams view sustainability as an integral part of how we make decisions to ensure our portfolio is successful and resilient – a lever to manage risks and source value creation opportunities that make sense for our portfolio, not as a reaction to shifting political dynamics.

We weren't doing it for the accolades. This hasn't changed.

It's also important to consider that, aside from the US, many other major economies such as the EU, China and Canada continue to be focused on climate issues and the energy transition.

Do you feel there is more attention being paid to the financial implications of sustainability initiatives? Are managers and LPs drawing a clearer link between sustainability initiatives and financial value creation?

I think this is something managers – and certainly IMCO – have been paying attention to for a long time. One interesting shift is that many investors are moving beyond simply protecting financial value by implementing sustainability-related risk mitigation measures. They are also focusing more and more on potential opportunities.

One of the keys to sustainability-linked value creation is that it must make sense from a business perspective. For example, one of the larger trucking companies in the US, with guidance from one of their major investors, replaced its ageing fleet with more fuel-efficient trucks. While this has the benefit of lowering the company's emissions, the reason they are making the change is to save on gas and increase their margins. They have successfully increased margins while creating value, and at the same time improved sustainability metrics, but the decision was made for business reasons.

How does this apply to IMCO as an investor?

Sustainability-linked value creation is one of the three pillars of IMCO's Sustainable

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Investing Strategy. As such, we continually leverage our expertise and governance rights to support our portfolio companies in using sustainability as a source of competitive advantage. You can find many examples of how we do this in our sustainability reports and on our website.

Looking across the various private markets asset classes to which IMCO allocates, do you have any priority sustainability initiatives?

We look at sustainability at the asset level for our direct investments, meaning the priorities will vary for each company based on what is material for their business and the industry they operate in.

That being said, there are certain sustainability considerations that are more broadly applicable across our private asset classes, and we strive to support portfolio companies in adopting best practices:

- Physical climate risk
- Asset decarbonisation
- Human capital management
- Health and safety
- Cybersecurity
- Executive compensation.

Cybersecurity is a topical one at the moment and we have been focused on it for some time. Critical infrastructure like utilities and fibre networks are increasingly

the target of sophisticated cyber attacks. Given the age and legacy nature of some of these assets, they could be exposed to material risks. We have developed an approach for working with our portfolio companies to identify where cybersecurity gaps may exist.

Impact investing and ESG are two separate concepts, but do you see them converging at all?

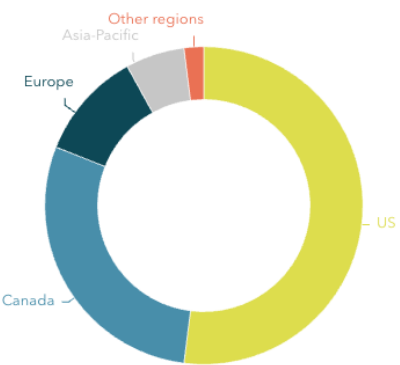
I think the extent to which impact investing merges with traditional investment practices will depend on each particular investor and their specific goals. IMCO is governed by our fiduciary duty to our clients, and therefore our focus must always be on delivering returns.

That being said, there may be factors that are not typically considered traditional financial outcomes which forward-thinking investors may see as contributors to asset value.

One potential way in which the confluence between impact investing and sustainable investing may increase is addressing ESG issues that present systemic risks to the economy, such as climate change. There are also sustainable development goals that present investable opportunities that allow us to deliver appropriate risk-adjusted returns – a welcome confluence of value and values.

PORTFOLIO BREAKDOWN

IMCO's assets are predominantly invested in North America



Source: IMCO 2024 annual report

Selected commitments from IMCO's private markets portfolio

Fund	Manager	Commitment	Asset class
Global Transition Fund	Brookfield Asset Management	\$1.25bn	Infrastructure
Ares Infrastructure Debt Fund V	Ares Management	\$300m	Infrastructure
Apax Global Impact I	Apax Partners	\$100m	Private equity
Kingsett Affordable Housing Fund	Kingsett Capital	\$60m	Real estate

Source: New Private Markets